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**Galtaco Inc.**

**1977 Annual Report**



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# Galtaco Inc.

and subsidiary companies

HEAD OFFICE: P.O. BOX 396, CAMBRIDGE, ONTARIO, N1R 5V8

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## OFFICERS and DIRECTORS - 1977

### OFFICERS

DAVID L. CHANDLER,	Chairman of the Board
HUGH C. MACKAY,	<i>Vice-Chairman - Emeritus</i>
DOUGLAS R. McKAY,	President and Chief Executive Officer
FRANK W. SIMPSON,	Secretary-Treasurer
J. DOUGLAS MAJOR,	Executive Vice-President

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### DIRECTORS

DAVID L. CHANDLER, Executive  
Redlaw Inc.  
Toronto, Ontario

HAROLD J. MURPHY, Q.C.  
Garvey, Ferriss  
Toronto, Ontario

DOUGLAS R. McKAY, Executive  
Galtaco Inc.  
Cambridge, Ontario

FRANK W. SIMPSON, Executive  
Galtaco Inc.  
Cambridge, Ontario

ROBERT W. NAVARRE, President  
Simpson Industries Inc.  
Litchfield, Michigan

JAMES W. HALLOCK, Director, Market Planning  
U.S. Sales Office  
Albion, Michigan

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### BANKERS

THE ROYAL BANK OF CANADA  
Cambridge, Ontario

### AUDITORS

THORNE RIDDELL & CO.  
Cambridge, Ontario

### SOLICITORS

GARVEY, FERRISS  
Toronto, Ontario

### TRANSFER AGENTS AND REGISTRARS

GUARANTY TRUST COMPANY of CANADA  
Toronto, Ontario



## REPORT TO SHAREHOLDERS

On behalf of the Board of Directors, we are pleased to submit this annual report for the year ended December 31st, 1977, and to comment briefly on some of the more significant events during the year.

### Financial Results

As reported last year, Bartaco Industries Limited, a subsidiary of the Company, has acquired a fifty-two per cent (52%) interest in Redlaw Inc., a U.S. corporation. Accordingly, this year's financial statements include the results of Redlaw Inc. on a consolidated basis.

The Company's consolidated sales for the year were \$46,814,412. As a result of the consolidation the prior year's sales of \$12,213,220. are not directly comparable. Consolidated earnings were \$1,005,520., (\$1.63 per share) compared to earnings in 1976 of \$875,460. (\$1.41 per share), which included extraordinary gains of \$.25 per share.

Quarterly dividends at \$.10 per Class A share and similar payments less 15% taxes to holders of Class B shares were paid during 1977. As you are aware, shareholders were given the right to elect a stock dividend in lieu of the regular cash dividend with respect to dividends paid in the last quarter of 1977 and the first quarter of 1978. Shareholders in each case were given the right to take one additional share for every seventy already held in lieu of the cash dividend. As a result of such elections made by the shareholders,

a total of 6,854 Class A and Class B shares were issued and listed for trading on the Toronto Stock Exchange in January, 1978, and a further 7,436 were issued and listed for trading in March of 1978.

These stock dividends have enabled shareholders to take advantage of recent budget amendments providing that stock dividends are not to be included in the income of shareholders resident in Canada. Management is presently reviewing the advantages of carrying on with a program of offering stock dividends.

### Operations

#### 1. *THE CASTINGS MANUFACTURING DIVISION*

As the difficult economic conditions which we all have been experiencing continued in 1977, management once again concentrated on achieving cost reductions and increasing profitability. Much effort was also directed to the Company's marketing program so that the level of production could be maintained. Also, major capital expenditures were made at the Brantford foundry in order to improve the production capabilities of that operation.

Once again, the Orillia Foundry performed satisfactorily throughout the year with operations in the October to December quarter at a three shift, six day level.

During 1977, the labour agreements with the hourly

employees in the Galt and Brantford foundries both expired. As a result of the responsible positions adopted by both management and union representatives, a one year agreement was negotiated at Galt and a three year agreement at Brantford. The 1977 settlements have not created undue hardships for either the Company or its employees.

The Galt agreement expires on June 30, 1978. The Company is presently involved in negotiations with union officials. The agreement for the Orillia facility expires on December 31, 1978.

#### 2. *GENERAL MANUFACTURED PRODUCTS DIVISION*

The innovator seating program made nominal profit for the first time during the final quarter. The usual start-up problems which arise with the introduction of a new product into the market have been overcome. Management is concentrating on sales so as to maximize the potential contribution of this new product to the Company's profitability.

The conventional seating division and industrial products division operated at satisfactory sales and earnings levels throughout the year.

#### 3. *SPECIAL PRODUCTS DIVISION*

The production of Spraymould Limited, a controlled subsidiary, has been concentrated on several



specific product lines. Concerted sales efforts are being made to market these products and management's plans for the future operations of this company will be dependant upon the success of existing product lines.

#### 4. *UNITED STATES OPERATIONS*

When acquired, Redlaw Inc., through two California based subsidiaries, was involved in the sale and leasing of heavy industrial and construction equipment in the western United States. It was management's decision to discontinue these operations, with the result that these subsidiaries were liquidated, for a consideration in excess of book value.

On June 9th, 1977, Redlaw Inc. acquired at a cost of \$2,280,496. U.S. a forty-three per cent (43%) interest in F.L. Jacobs Co., a corporation based in Grand Rapids, Michigan, and engaged in the manufacture and supply of sheet metal stampings and assemblies to the automotive industry. F.L. Jacobs' name has since been changed to Grand Rapids Metalcraft Inc. Redlaw has subsequently increased its interest in Grand Rapids Metalcraft to over fifty per cent (50%).

For the fiscal year ending July 31st, 1977, the net sales of Grand Rapids Metalcraft Inc. were \$28,567,967. U.S., resulting in net income of \$1,114,080. U.S. or \$1.45 U.S. per share. Management feels that the operations of Grand Rapids Metalcraft Inc. complement Galtaco's operations in Canada and

provide a solid base for further development and growth in North America.

In April 1978, Metalcraft acquired in excess of fifty per cent (50%) of the voting stock of Founders of American Investment Corporation, a holding company located in Springfield, Missouri, U.S.A., and management hopes to acquire through Founders of American Investment Corporation, further operating entities complementary to present operations.

#### 5. *MANAGEMENT*

In June 1978, Mr. Douglas Major was appointed Executive Vice-President of your Company with direct management responsibility for all foundry operations.

Your directors, again, wish to thank all employees for their dedicated service and the shareholders for the confidence and interest shown by them.

### **Outlook**

Management continues its policy of maintaining tight controls over present operations and of considering and reviewing thoroughly any potential acquisitions. Specifically, management is interested in Canadian and American companies with substantial involvement in the U.S. market place, and particularly in the automotive related field.

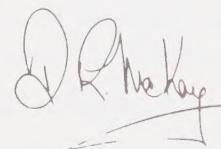
The time and place of the forthcoming annual meeting of shareholders will be annourced

shortly. Notice of this meeting together with the Information Circular and Proxy Form will be forwarded to shareholders at such time.

On behalf of the Board  
of Directors:



*D.L. Chandler*  
Chairman



*D.R. McKay*  
President

Cambridge, Ontario  
June 7th, 1978

# Galtaco Inc.

## Five Year Financial Review

	1977	1976	1975	1974	1973
<b>Statement of Income:</b>					
Sales .....	\$46,814,412	\$12,213,220	\$12,179,269	\$13,627,334	\$11,227,003
Cost of sales .....	38,867,183	9,585,556	9,429,849	11,422,916	9,244,465
Gross profit .....	7,947,229	2,627,664	2,749,420	2,204,418	1,982,538
Sales, financial and administrative expenses ...	5,393,013	1,688,303	1,491,679	1,465,822	1,149,998
	2,554,216	939,361	1,257,741	738,596	832,540
Other income					
Gain on sale of land .....	131,753				
Unrealized foreign exchange gain .....	432,441				
Share of income before extraordinary items of subsidiary companies .....		140,163	273,846	106,243	
Income from other investments .....	105,504	72,006	18,596		
Income before income taxes, minority interest and extraordinary items .....	3,223,914	1,151,530	1,550,183	844,839	832,540
Income taxes .....	1,166,714	430,327	558,363	333,137	370,849
	2,057,200	721,203	991,820	511,702	461,691
Minority interest in income of subsidiary companies .....	1,164,895				
Income from continuing operations .....	892,305	721,203	991,820	511,702	461,691
Income from discontinued operations .....	113,215				
Income before extraordinary items .....	1,005,520	721,203	991,820	511,702	461,691
Extraordinary items .....		154,257		384,473	
Net income .....	\$ 1,005,520	\$ 875,460	\$ 991,820	\$ 896,175	\$ 461,691

## Financial and Other Information:

Working capital .....	\$12,190,705	\$10,458,073	\$ 1,631,991	\$ 1,300,814	\$ 772,739
Working capital ratio .....	1.85:1	2.58:1	1.79:1	1.73:1	1.39:1
Long-term debt .....	\$11,080,753	\$ 9,763,159	\$ 2,260,830	\$ 2,377,760	\$ 2,248,076
Minority interest in subsidiaries .....	\$ 8,330,006	\$ 5,064,861			
Information relating to Class A and Class B shares.					
Number of shares outstanding .....	654,454	647,600	647,600	652,500	652,500
Shareholders' equity .....	\$ 6,127,313	\$ 5,352,115	\$ 5,000,501	\$ 4,242,195	\$ 3,426,868
Equity per share .....	\$ 9.36	\$ 8.26	\$ 7.72	\$ 6.50	\$ 5.25
Cash flow per share .....	\$ 6.63	\$ 1.57	\$ 2.32	\$ 1.54	\$ 1.55
Earnings per share * .....	\$ 1.63	\$ 1.41	\$ 1.52	\$ 1.37	\$ .70
Dividends per share .....	40¢	40¢	30¢	11.7¢	23.5¢
Return on equity .....	16.3%	16.3%	19.7%	21.1%	13.3%

\* Including extraordinary items.



# Galtaco Inc.

## Consolidated Statement of Income

year ended December 31, 1977

	1977	1976
Sales .....	\$46,814,412	\$12,213,220
Cost of goods sold .....	38,867,183	9,585,556
Gross profit .....	7,947,229	2,627,664
Selling and administrative expenses .....	4,697,407	1,410,725
Interest on long-term debt .....	531,350	223,284
Other interest .....	164,256	54,294
	5,393,013	1,688,303
	2,554,216	939,361
Other income		
Gain on sale of land .....	131,753	
Unrealized foreign exchange gain .....	432,441	
Share of income before extraordinary items of subsidiary companies .....		140,163
Income from other investments .....	105,504	72,006
	669,698	212,169
Income before income taxes, minority interest and extraordinary items .....	3,223,914	1,151,530
Income taxes .....	1,166,714	430,327
	2,057,200	721,203
Minority interest in income of subsidiary companies .....	1,164,895	
Income from continuing operations .....	892,305	721,203
Net operating losses of discontinued operations after income taxes and minority interest .....	(31,567)	
Gain on disposal of assets of discontinued businesses after income taxes and minority interest .....	144,782	
Income before extraordinary items .....	1,005,520	721,203
Extraordinary items:		
Writeup of temporary investment .....		47,579
Profit on sale of businesses of subsidiary company .....		41,522
Income tax reduction realized on carry-forward of prior years' income tax losses of subsidiary company .....		65,156
		154,257
<b>Net Income</b> .....	<b>\$ 1,005,520</b>	<b>\$ 875,460</b>
<b>Earnings Per Class A and Class B Share</b>		
Income from continuing operations .....	\$1.44	\$1.16
Income before extraordinary items .....	\$1.63	\$1.16
Net income .....	\$1.63	\$1.41

## Consolidated Statement of Retained Earnings

year ended December 31, 1977

	1977	1976
<b>Balance at beginning of year</b>		
As previously reported .....	\$ 4,883,218	\$ 4,270,998
Adjustment of prior years' income taxes less minority interest therein (note 10) .....	64,290	64,290
As restated .....	4,818,928	4,206,708
Net income .....	1,005,520	875,460
	5,824,448	5,082,168
Dividends on		
Preference shares .....	3,712	4,200
Class A and Class B shares .....	259,040	259,040
	262,752	263,240
<b>Balance at end of year</b> .....	<b>\$ 5,561,696</b>	<b>\$ 4,818,928</b>

# Galtaco Inc.

(Incorporated under the laws of Ontario)

## Consolidated Balance Sheet

as at December 31, 1977

### Assets

	1977	1976
<b>Current Assets:</b>		
Cash .....	\$ 7,283,680	\$ 7,100,749
Short-term investments at cost which approximates market value .....	599,502	616,633
Accounts receivable .....	8,612,025	3,323,544
Note receivable .....		221,757
Inventories (note 2) .....	9,678,139	5,661,376
Prepaid expenses .....	307,452	136,949
	<u>26,480,798</u>	<u>17,061,008</u>
 <b>Investment in non-consolidated subsidiaries</b> (note 3) .....	 907,214	 738,149
 <b>Life Insurance</b> , cash surrender value .....	 41,773	 36,927
 <b>Fixed Assets</b>		
Land .....	569,556	606,811
Buildings and improvements .....	6,474,484	4,394,480
Machinery and equipment .....	16,839,409	11,841,086
	<u>23,883,449</u>	<u>16,842,377</u>
Less accumulated depreciation .....	10,574,665	7,122,196
	<u>13,308,784</u>	<u>9,720,181</u>
 <b>Deferred Charges</b> , less amortization (note 5) .....	 1,420,807	 818,362
	<u>\$42,159,376</u>	<u>\$28,374,627</u>

### APPROVED BY THE BOARD:

D.R. McKay, Director

F.W. Simpson, Director



## Liabilities

	1977	1976
<b>Current liabilities:</b>		
Bank indebtedness (note 6) .....	\$ 4,274,556	\$ 2,818,440
Accounts payable and accrued liabilities .....	7,953,835	1,805,439
Income and other taxes .....	928,896	1,263,172
Principal due within one year on long-term debt .....	1,132,806	715,884
	<u>14,290,093</u>	<u>6,602,935</u>
<b>Lease Deposits</b> .....	2,196	33,340
<b>Long-Term Debt</b> (note 7) .....	11,080,753	9,763,159
<b>Deferred Income Taxes</b> .....	2,268,315	1,497,517
<b>Minority interest in subsidiaries</b> .....	8,330,006	5,064,861
	<u>21,681,270</u>	<u>16,358,877</u>

## Shareholders' Equity

### Capital Stock (note 8)

#### Authorized

2,828 6% Cumulative first preference shares,  
par value \$100, redeemable at up to  
\$105 per share

779 6¼% Cumulative participating second  
preference shares, par value \$100,  
redeemable at up to \$105 per share

999,500 Class A and Class B shares without par  
value

1,000 Common shares without par value

#### Issued

328 First preference shares .....

279 Second preference shares .....

654,454 Class A and Class B shares (647,600 in 1976) .....

	32,800	32,800
	27,900	27,900
	<u>675,929</u>	<u>627,951</u>
	736,629	688,651
<b>Contributed Surplus</b> .....	101,552	101,552
<b>Retained Earnings</b> .....	5,561,696	4,818,928
	<u>6,399,877</u>	<u>5,609,131</u>
	211,864	196,316
<b>Cost of shares in company held by subsidiary</b> .....	<u>6,188,013</u>	<u>5,412,815</u>
	<u>\$42,159,376</u>	<u>\$28,374,627</u>

### Commitments (note 9)



# Galtaco Inc.

## Consolidated Statement of Changes in Financial Position

year ended December 31, 1977

	1977	1976
<b>Working Capital Derived From:</b>		
Operations		
Income before extraordinary items .....	\$ 1,005,520	\$ 721,203
Items not involving working capital		
Depreciation and amortization .....	876,924	400,397
Deferred income taxes .....	617,433	35,398
Discount on bonds purchased for cancellation .....	(380)	(753)
Minority interest in income of subsidiary companies .....	1,369,742	
Equity in income before extraordinary items of subsidiary companies .....		(140,163)
	<u>3,869,239</u>	<u>1,016,082</u>
Acquisition of subsidiaries (note 4)		
Long-term bank loan .....		4,800,000
5% Note payable .....		2,921,613
Working capital less cost of acquisition .....	1,325,371	1,883,284
10.55% Debenture .....	2,000,000	
Issue of capital stock .....	47,978	
Sale of fixed assets .....	263,061	35,545
	<u>7,505,649</u>	<u>10,656,524</u>
<b>Working Capital Applied To:</b>		
Reduction in lease deposits .....	31,144	
Advances to non-consolidated subsidiaries .....	169,065	387,448
Writeup of temporary investment .....		(47,579)
Additions to fixed assets .....	2,904,820	453,529
Reduction of long-term debt .....	1,136,426	621,434
Increase in deferred charges .....	660,069	
Dividends .....	262,752	263,240
Redemption of shares of subsidiary company .....	248,740	
Dividends paid to minority shareholders of subsidiary companies .....	314,959	
Other .....	45,042	22,806
	<u>5,773,017</u>	<u>1,700,878</u>
<b>Increase in Working Capital .....</b>	<u>1,732,632</u>	<u>8,955,646</u>
<b>Working Capital at Beginning of Year:</b>		
As previously reported .....	10,587,637	1,631,991
Adjustment of prior years' income taxes (note 10) .....	129,564	129,564
As restated .....	<u>10,458,073</u>	<u>1,502,427</u>
<b>Working Capital At End of Year .....</b>	<u>\$12,190,705</u>	<u>\$10,458,073</u>



# Galtaco Inc.

## Notes to Consolidated Financial Statements

year ended December 31, 1977

### 1. Accounting Policies:

#### (a) Basis of consolidation

These consolidated financial statements include the accounts of the company and all its subsidiaries except those referred to in note 3.

#### (b) Foreign currency translation

The accounts of the subsidiary companies located in the United States have been translated to Canadian currency as follows:

Current assets, current liabilities and long-term debt - - - at exchange rates in effect at the balance sheet date.

Fixed assets - - - at exchange rates prevailing at dates of acquisition.

Accumulated depreciation and related provision against income - - - at exchange rates prevailing at dates of acquisition of the related assets.

Income and other expenses - - - at average exchange rates for the year.

#### (c) Inventories

Inventories are valued at the lower of cost (determined primarily on the first-in, first-out basis) and net realizable value.

#### (d) Investment in non-consolidated subsidiaries

The investment in the 51% owned non-consolidated subsidiaries, Spraymould Limited and Spraymould (Bahamas) Limited is recorded at cost less provision for decline in value of advances.

#### (e) Fixed assets

Fixed assets are stated at cost and are depreciated principally on the straight-line basis using rates which are intended to write off the cost of the assets over their estimated useful lives.

#### (f) Deferred charges

Long-term debt issue costs are amortized over the original lives of the related debt.

Deferred development costs relating to products in commercial production are being amortized based on units sold. Management anticipates that these costs will be fully amortized within three years.

Deferred development costs relating to products currently in the development state are stated at cost less sales revenues therefrom.

#### (g) Pension plans

Current service costs are charged to income as they accrue. Unfunded past service liabilities are being charged to income as set out in note 9.

### 2. Inventories:

	1977	1976
Raw materials and supplies .....	\$5,190,925	\$1,744,851
Work in process .....	3,225,286	1,159,963
Finished goods .....	1,261,928	2,756,562
	<u>\$9,678,139</u>	<u>\$5,661,376</u>

### 3. Investment in Non-Consolidated Subsidiaries:

(a) The company has operational control of Spraymould Limited and Spraymould (Bahamas) Limited and is committed to contribute its management expertise to their operations.

Should Galtaco give up its operational control it would be required to relinquish its shares in the Spraymould companies. Accordingly, the accounts of these controlled subsidiaries have not been consolidated in these financial statements.

(b) Galtaco has guaranteed bank advances to Spraymould of \$160,000 at December 31, 1977, and while it retains operational control, is committed to the guarantee of further advances and interest thereon for the financing of Spraymould operations.

(c) Spraymould is in the research and development stage of its corporate existence and all expenses net of government grants and sales revenue have been treated as deferred charges. The ultimate worth of the assets shown in the following summary of financial data and the company's investment in Spraymould is dependent on the successful development of the production process, suitable financing and subsequent sales or royalty agreements at adequate prices. A provision for decline in value of advances to Spraymould in the amount of \$125,000 has been reflected in the accounts of the company at December 31, 1977 and 1976.



# Galtaco Inc.

## Notes to Consolidated Financial Statements (continued)

year ended December 31, 1977

### 3. Investment in Non-Consolidated Subsidiaries: (continued)

The investment consists of:

	1977	1976
Shares at cost (51% owned in 1977 and 1976) .....	\$ 9,705	\$ 9,705
8% Advances maturing July 31, 1982 less provision for decline in value .....	897,509	728,444
	<u>\$ 907,214</u>	<u>\$ 738,149</u>

Spraymould Limited, summary of financial data:

	December 31, 1977 Unaudited	June 30, 1977 Audited
Current assets .....	\$ 119,883	\$ 188,385
Receivable from affiliate .....	47,964	46,745
Fixed assets, net of depreciation .....	315,022	350,670
Deferred charges .....	3,142,784	2,943,720
	<u>\$3,625,653</u>	<u>\$3,529,520</u>
Current liabilities .....	\$ 231,495	\$ 266,248
Long-term debt .....	3,256,658	3,125,772
Capital stock .....	137,500	137,500
	<u>\$3,625,653</u>	<u>\$3,529,520</u>

Spraymould (Bahamas) Limited is currently inactive. Its assets and liabilities are not material.

### 4. Investment in Grand Rapids Metalcraft Inc.:

On June 9, 1977 Redlaw Inc., a subsidiary company, acquired approximately 43% of the issued common shares of Grand Rapids Metalcraft Inc. (formerly F.L. Jacobs Co.). Purchases on the open market subsequent to that date have increased Redlaw's holdings to over 50% as at December 31, 1977.

The acquisition of this subsidiary is accounted for by the purchase method. Net assets acquired at assigned values (book value \$4,910,043) is as follows:

Current assets .....	\$7,678,941	
Fixed assets .....	1,584,775	
Other assets .....	118,371	\$9,382,087
	<u>3,646,155</u>	
Current liabilities .....	3,646,155	
Long-term debt .....	454,020	
Deferred income taxes .....	152,525	4,252,700
		<u>5,129,387</u>
Minority interest .....		2,421,972
Cash consideration .....		<u>\$2,707,415</u>

### 5. Deferred Charges:

	1977	1976
Long-term debt issue costs .....	\$ 36,110	\$ 20,263
Deferred development costs		
Products in commercial production .....	1,321,912	738,461
Products in the development stage .....	62,785	59,638
	<u>\$1,420,807</u>	<u>\$ 818,362</u>



## 6. Bank Indebtedness:

Bank indebtedness is secured by a general assignment of book debts, inventories and shares of certain subsidiary companies.

## 7. Long-Term Debt:

	1977	1976
5½% General mortgage sinking fund bonds due July 1, 1981 .....	\$ 120,500	\$ 149,000
Less sinking fund cash .....	10,100	8,866
	<u>110,400</u>	<u>140,134</u>
7¼% debenture due July 15, 1982 .....	885,500	1,078,700
10% First mortgage bonds due June 15, 1982 .....	277,496	341,496
Bank loans, payable semi-annually to 1980 .....	500,000	700,000
5% Note, payable annually to 1987 .....	2,787,613	2,921,613
Long-term bank loan .....	5,270,400	4,800,000
7¼% Debenture, payable monthly to 1981 .....	300,900	362,100
9% Note, payable annually to 1979 .....	101,250	135,000
Debenture due November 15, 1982, bearing interest at a variable rate, currently 10.55% .....	1,980,000	
	<u>12,213,559</u>	<u>10,479,043</u>
Less principal included in current liabilities .....	1,132,806	715,884
	<u>\$11,080,753</u>	<u>\$ 9,763,159</u>

The long-term bank loan is payable in U.S. funds and bears interest at the U.S. base rate of the company's bankers (8¼% at December 31, 1977) plus 1½% to December 31, 1979 and 2% thereafter. Principal payments of U.S. \$500,000 are due on December 31, 1979, 1980, and 1981, and the balance of U.S. \$3,300,000 is due on December 31, 1982. Under certain circumstances earlier repayment may be required.

The bank loans are secured by assignment of shares in a subsidiary company and certain short term investments. The bonds and debentures are secured by the company's fixed assets and by floating charges on all its assets and undertakings.

Under the terms of certain of the debt instruments, the company has agreed to certain regulation of the following activities:

- (a) Investments
- (b) Borrowing of money
- (c) Redemption of capital stock
- (d) Payment of dividends
- (e) Loans to shareholders

Principal due on long-term debt within each of the next five years is as follows:

1978	\$1,132,806
1979	1,433,563
1980	1,385,414
1981	1,340,477
1982	5,536,358

## 8. Capital Stock:

The Class A and Class B shares are interconvertible and the Class B shares are eligible for tax deferred dividends. Such dividends are effectively reduced by the company's tax costs related thereto. In all other respects the rights of the Class A, Class B and common shares are identical.

During the year ended December 31, 1977, 6,854 Class A and Class B shares were issued for a consideration of \$47,978.



# Galtaco Inc.

## Notes to Consolidated Financial Statements (Continued)

year ended December 31, 1977

### 9. Commitments:

#### Unfunded Pension Liabilities

The most recent actuarial valuation indicates that the actuarially-computed value of vested benefits exceeded pension plan assets and balance sheet accruals in a subsidiary company by approximately U.S. \$4,180,600 as at August 1, 1977. The subsidiary amortizes past service costs over thirty and forty years.

Unfunded past service liabilities in the parent company approximate \$128,000 at December 31, 1977. This liability is being funded by annual instalments through 1988.

#### Plant Expansion

At December 31, 1977 the Board of Directors of a subsidiary company had approved expenditures of U.S. \$2,200,000 for expansion of production facilities. Related long-term financing has been arranged.

### 10. Adjustment of Prior Years' Income Taxes:

Comparative figures have been restated to reflect a charge of \$129,564 for income taxes reassessed to a subsidiary company with respect to its 1974 and 1975 taxation years, of which the parent company portion is \$64,290.

### 11. Anti-Inflation Legislation:

The company and its Canadian subsidiaries are subject to the provisions of the Anti-Inflation Act which provide for restraint of prices, compensation and dividends. In the opinion of the management, the company has complied with this legislation.

### 12. Subsequent Events:

Subsequent to December 31, 1977:

- (a) Redlaw Enterprises Inc. purchased 200,000 of its common shares for U.S. \$800,000 cash.
- (b) Grand Rapids Metalcraft Inc. made an offer to the shareholders of Founders of American Investment Corporation (a U.S. closed-end investment company) to purchase approximately 51% of the common shares of Founders for a total cash consideration of approximately U.S. \$3,300,000 including fees and expenses. Grand Rapids intends to finance approximately \$1,600,000 of the purchase price by a bank loan repayable in 18 months and the balance by way of a loan from Redlaw Inc., its parent company, under the same terms and conditions as the bank loan. It is the intention of Grand Rapids to repay these loans from the proceeds of a subscription offering to its shareholders for additional shares of its common stock.

### 13. Other Statutory Information:

	1977	1976
Direct remuneration of directors and senior officers .....	\$ 308,758	\$ 294,645
Depreciation .....	819,300	396,345
Amortization .....	57,624	4,052

## AUDITORS' REPORT

To the Shareholders of  
Galtaco Inc.

We have examined the consolidated balance sheet of Galtaco Inc. as at December 31, 1977 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. For the company and its subsidiaries of which we are the auditors our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements for certain subsidiaries.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

*Thorne Riddell & Co.*

Chartered Accountants

Cambridge, Canada  
March 8, 1978



